

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-05 CEA-01 DODE-00 PA-02 PRS-01 /108 W
-----021187 280951Z /20

P R 280827Z DEC 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 3909
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - DEC 21-28

1. SUMMARY: CABINET OFFICIALLY BLESSES 7 PERCENT REAL GROWTH
TARGET FOR JAPAN FOR FY 1978. MINISTRY OF FINANCE (MOF) PRO-
POSES BY 1978 BUDGET INCLUDING SUBSTANTIAL 20.3 PERCENT
EXPENDITURE INCREASE, AS WELL AS SECOND SUPPLEMENTARY BUDGET
FOR FY 1977. INDUSTRIAL PRODUCTION AND SHIPMENTS REBOUND
SHARPLY IN NOV. DEC CONSUMER PRICES ACTUALLY DECLINE SLIGHTLY,
MONTH-OVER-MONTH. DEPARTMENT STORE SALES FALL IN NOV, BUT
SELF-SERVICE STORE SALES PICK UP SOMEWHAT. BANK OF JAPAN
(BOJ) CREDIT CEILINGS FOR FIRST QUARTER 1978 REPORTEDLY
VIRTUALLY AS LIBERAL AS BANKS REQUEST. END SUMMARY.
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2. ON DEC 21, THE JAPANESE CABINET OFFICIALLY APPROVED
THE ECONOMIC OUTLOOK FOR JFY 1978, CALLING FOR 7 PERCENT
REAL GROWTH (TOKYO 19655). DETAILS OF THE OUTLOOK WERE
ESSENTIALLY AS REPORTED EARLIER (TOKYO 19590). THE CURRENT
ACCOUNT SURPLUS FOR JFY 1978 WAS FORECAST TO DECLINE TO \$6
BIL, AS COMPARED WITH \$10 BIL FOR THE CURRENT FISCAL YEAR.

3. ON DEC 23 THE MOF RELEASED ITS PROPOSED DRAFTS OF THE JFY 1978 BUDGET AND OF THE SECOND SUPPLEMENTARY BUDGET FOR JFY 1977, GENERALLY ALONG LINES EARLIER REPORTED (TOKYO 19718). FY 1978 BUDGET EXPENDITURES ARE EXPECTED TO RISE A SUBSTANTIAL 20.3 PERCENT, TO 34.3 TRILLION YEN (APPROX \$143 BIL, AND NATIONAL BOND ISSUES WERE PROJECTED TO AMOUNT TO 11 TRILLION YEN (\$46 BIL), OR 32 PERCENT OF THE GENERAL ACCOUNT BUDGET EXPENDITURES. (WITHOUT WINDOW DRESSING IT IS ESTIMATED THE RATIO WOULD GO UP TO 38 PERCENT.) THE SECOND SUPPLEMENTARY BUDGET PROPOSED BY THE MOF WILL BRING THE FINAL DEPENDENCE ON PUBLIC BOND PROCEEDS THIS FISCAL YEAR TO 10 TRILLION YEN (\$42 BIL, OR 34 PERCENT OF GENERAL ACCOUNT BUDGET EXPENDITURES. A FINAL ROUND OF INTER-MINISTERIAL NEGOTIATIONS ON THE FY 1978 BUDGET NOW GOING ON IS EXPECTED TO RESULT IN SOME ADJUSTMENTS OF BUDGETS OF VARIOUS MINISTRIES AND A LARGER FIGURE FOR OUTLAYS UNDER THE FISCAL LOAN AND INVESTMENT PROGRAM (FLIP).

4. ADDITIONAL OUTLAYS FOR THE JFY 1977 FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) AMOUNTING TO 281.4 BIL YEN (ABOUT \$1.2 BIL AT 240 YEN/DOLLAR RATE) WERE APPROVED DEC 23 BY THE FUND OPERATION COUNCIL (AN ADVISORY COUNCIL TO THE PRIME MINISTER). JFY 1977 FLIP OUTLAYS ARE NOW PROGRAMMED TO TOTAL 13.9 TRILLION YEN (\$58 BIL, UP 22.2 PERCENT OVER THE FLIP OUTLAY FOR JFY 1976. FOLLOWING IS SUMMARY OF JFY 1977 FLIP (IN BIL YEN):

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(A) AGGREGATE OUTLAY

	SUPPLEMENTS				FINAL
INITIAL	SEP 26	OCT 24	NOV 28	DEC 23	
12,538.2	555.8	180.6	370.0	281.4	13,926.0

(B) SUPPLEMENTAL OUTLAY BY AGENCY:

NOV 28	PEOPLE'S FINANCE CORP	200
	SMALL BUSINESS FINANCE CORP.	170
DEC 23	JAPAN NATIONAL RAILWAYS	65
	LOCAL GOVTS	179.4
	OTHERS	37.0

5. FIGURES RELEASED DEC 27 SHOWED A SHARP REBOUND IN JAPAN'S INDUSTRIAL PRODUCTION AND SHIPMENTS IN NOV, WHILE INVENTORIES DECLINED FOR THE THIRD STRAIGHT MONTH (TOKYO 19809). THE INDEX OF MINING AND MANUFACTURING PRODUCTION, S.A., ROSE 2.8 PERCENT OVER THE PRIOR MONTH, WITH PRODUCTION GAINS REGISTERED IN MOST CATEGORIES. PRODUCERS' SHIPMENTS OF FINISHED GOODS IN MINING AND MANUFACTURING ROSE A S.A. 4 PERCENT OVER OCT. THIS, HOWEVER, FOLLOWED A DECLINE OF 1.8 PERCENT IN OCT AND, EXCLUDING SHIP DELIVERIES, THE FIGURE WAS A CONSIDERABLY SMALLER BUT

STILL HEALTHY 2.6 PERCENT. WITH A 0.1 PERCENT FALL IN
FINISHED GOODS INVENTORIES AND THE RISE IN SHIPMENTS, THE RATIO

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BETWEEN THE TWO DECLINED RAPIDLY IN NOV, DOWN 3.8 PERCENT
FROM OCT (2.6 PERCENT EXCLUDING SHIP DELIVERIES).

6. THE DEC CONSUMER PRICE INDEX FOR TOKYO (N.S.A.) ALSO
BROUGHT GOOD NEWS, DECLINING 0.2 PERCENT, ON TOP OF A 1 PERCENT
DECLINE IN NOV (TOKYO 19777). THE YEAR-OVER-YEAR INCREASE
IN DEC WAS 5.0 PERCENT. EXCLUDING SEASONAL ITEMS, THE DEC
CPI ROSE MODEST 0.2 PERCENT OVER NOV. THE DECELERATION OF INFLATION
IN TERMS OF CPI HAS BEEN PARTICULARLY NOTICEABLE SINCE MID-
YEAR; THE THIRD QUARTER MONTHLY AVERAGE WAS 0.3 PERCENT ABOVE
THE SECOND, AND THE FOURTH QUARTER 0.8 PERCENT ABOVE
THE THIRD.

7. DEPARTMENT STORE SALES, S.A., DIPPED IN NOV, DOWN 3.6
PERCENT FROM OCT LEVEL, MORE THAN OFFSETTING THE GROWTH RECORDED
IN PRECEDING TWO MONTHS. NOV SALES OF ALL MAJOR CATEGORIES OF
GOODS EXCEPT FOR MISCELLANEOUS ITEMS DROPPED FROM PRIOR MONTH.
IN PARTICULAR, SALES OF CLOTHING, WHICH ACCOUNT FOR ABOUT
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40 PERCENT OF THE ENTIRE SALES OF DEPARTMENT STORES, DECLINED SHARPLY, AT LEAST PARTLY DUE TO UNUSUALLY WARM WINTER. ON YEAR-OVER-YEAR COMPARISON, GROWTH IN DEPARTMENT STORE SALES SLOWED TO ONLY 3.0 PERCENT IN NOV. SALES OF SELF-SERVICE-TYPE STORES PICKED UP SOMEWHAT IN NOV, RISING BY NEARLY 19 PERCENT ABOVE A YEAR EARLIER LEVEL.

TABLE 1: DEPARTMENT STORE SALES, S.A.

(1970 EQUALS 100; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

SEP 263.3 (1.3)

OCT 267.2 (1.5)

NOV 257.6 (MIN 3.6)

TABLE 2: SALES OF DEPARTMENT STORES AND LARGE-SCALE SELF-SERVICE STORES, N.S.A. (IN BIL YEN; PERCENT CHANGE FROM A YEAR AGO IN PAREN)

DEPARTMENT STORES SELF-SERVICE STORES

SEP 350.0 (6.6) 317.6 (18.8)

OCT 432.2 (5.4) 356.0 (17.6)

NOV 423.6 (3.0) 363.6 (18.9)

8. ON DEC 27, HE BOJ ANNOUNCED CREDIT EXPANSION LIMITS ON INCREASE IN LOANS BY THE 13 CITY BANKS DURING COMING JAN-MAR QUARTER NEXT YEAR OF 1,216 BIL YEN, UP 6.5 PERCENT OVER THE ACTUAL INCREASE IN THE SAME QUARTER A YEAR EARLIER. THIS WILL MARK SECOND SUCCESSIVE QUARTER FOR WHICH CREDIT INCREASE IS EXPECTED TO BE LARGER THAN IN YEAR-EARLIER PERIOD. BOJ REPORTEDLY HAS PERMITTED CREDIT TO EXPAND VIRTUALLY AS MUCH AS BANKS HAVE REQUESTED. HOWEVER, COMMERCIAL BANKS ARE SAID TO PREDICT WEAKNESS OF PRIVATE CREDIT DEMAND WILL CONTINUE THROUGH FIRST QUARTER OF NEXT YEAR. LARGE CREDIT DEMAND REFLECTS BANKS'S ANTICIPATION OF PROGRESS OF YEN SHIFT AND NEED FOR FUNDS FOR SUCH PURPOSES AS FINANCING INVESTMENTS. EMBASSY ESTIMATE OF CREDIT EXPANSION THROUGH END OF MARCH 1978,

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USING THE QUARTERLY LIMITS ON CREDIT GROWTH, IS SHOWN IN RIGHT-HAND COLUMN OF TABLE BELOW. BANK CREDIT EXPANSION IS ESTIMATED TO PICK UP SLIGHTLY, RISING BY AROUND 8.8 PERCENT OVER YEAR-EARLIER LEVEL AS COMPARED WITH 8.6 PERCENT YEAR-OVER-YEAR INCREASE DURING SECOND HALF OF 1977.

CITY BANK LENDING LIMITS	
OUTSTANDING LOANS	
INCREASE IN LIMIT	AND DISCOUNTS, AT
PERCENT CHANGE	END OF
	QUARTER, PERCENT
	CHANGE FROM PRIOR

	IN BIL YEN	FROM PRIOR YR.	YEAR (NOTE)
1977: JAN-MAR	1,130	MIN 1.4	10.0
APR-JUNE	960	MIN 7.9	9.4
JUL-SEP	1,129	MIN 13.1	8.6
OCT-DEC	1,685	7.8	8.6
1978: JAN-MAR	1,216	6.5	8.8

NOTE: TOTAL LOANS AND DISCOUNTS BY 13 CITY BANKS, INCLUDING
SMALL AMOUNTS OF FOREIGN CURRENCY LOANS NOT INCLUDED IN
LENDING LIMITS.
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Message Attributes

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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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